S&P Global
Ratings

RatingsDirect®

Research Update:

Nexans Outlook Revised To Positive On Successful Transformation And Strong Credit Metrics; 'BB+/B' Ratings Affirmed

February 15, 2023

PRIMARY CREDIT ANALYST

Tanja Paliakoudis, CFA
Frankfurt
+49 6933999219
tanja.paliakoudis
@spglobal.com

SECONDARY CONTACT

Tobias Buechler, CFA
Frankfurt
+ 49 693 399 9136
tobias.buechler
@spglobal.com

ADDITIONAL CONTACT

Corporate and IFR EMEA
RatingsCorpIFREMEA
@spglobal.com

Rating Action Overview

- French cable manufacturer Nexans S.A.'s operational performance has improved further, thanks to the group's transformation efforts and focus on higher and more stable margin businesses.
- Nexans' credit metrics improved significantly in 2021 and remained strong in 2022, with funds from operations (FFO) to debt of above 60% and debt to EBITDA of about 1.0x. We expect these metrics will weaken somewhat in 2023, but remain at a good level, with FFO to debt above 50% and debt to EBITDA below 1.5x.
- We understand management is committed to a conservative balance sheet that would support a higher rating.
- We therefore revised our outlook on Nexans to positive from stable, and affirmed our 'BB+/B' issuer credit ratings.
- The positive outlook reflects a possible upgrade if Nexans continues to build a track record of strong operating performance and credit metrics, supported by a conservative financial policy.

Rating Action Rationale

Nexans' operating performance has improved, thanks to progress made in its transformation plan, which focuses on electrification and achieving higher and more stable cash flows. Nexans' focus on markets driven by secular trends, such as electrification and decarbonization, has resulted in higher, but also more sustainable margins and cash generation. The group's strategic goal is to become a pure electrification player, which includes disposing its non-electrification business where it has a less competitive position and reduced pricing power.

After delivering strong credit metrics in 2021, the group continued with good operating performance in 2022, as evidenced by solid S&P Global Ratings-adjusted EBITDA generation of

€522 million (unchanged compared to 2021)and FOCF generation of about €120 million-€140 million in 2022 (€147 million in 2021). This translates into estimated strong credit metrics for 2022, with S&P Global Ratings-adjusted FFO to debt of above 60% (90% in 2021) and S&P Global Ratings-adjusted debt to EBITDA of about 1.0x (0.9x in 2021). We continue to view positively the group's focus on profitability and FOCF, which enable it to reduce leverage, rather than prioritization of volumes as in the past.

Although we expect some operational challenges in 2023 due to macroeconomic developments, we expect Nexans will maintain its credit metric headroom. Nexans' strong positioning as the world's second-largest cable manufacturer has enabled the group to profit from megatrends, such as the energy transformation of the European grid. This is supported by the record high order intake in its most profitable segment Generation and Transmission, which provides revenue visibility for the next 18-24 months. That said, we also see challenges in 2023, since current economic trends could affect its short-cycle segment Usage, where the backlog decreased in 2022 compared to 2021. On the back of record high reported EBITDA and net income, we expect Nexans' operating performance will remain flattish in 2023, due to persistent inflationary pressure and increasing challenges to pass on cost increases, before picking up again in 2024. Furthermore, we expect Nexans will continue making bolt-on acquisitions to amplify its electrification business. That said, we expect S&P Global Ratings-adjusted FFO to debt will somewhat decrease but remain above 50%. Similarly, we expect S&P Global Ratings-adjusted debt to EBITDA to increase but to stay below 1.5x in 2023 and 2024.

We expect Nexans' recent acquisition of Reka Cables Ltd. will be partly financed by the disposal of its telecom systems business. In November 2022, Nexans announced its plans to acquire the Finish company Reka Cables for approximately €60 million, with the aim to amplify its electrification offer and expand its presence in the Nordics. We expect the transaction will close in the first half of 2023. The group has also recently announced entering exclusive negotiations to sell its telecom systems business. The transaction remains subject to the fulfilment of customary conditions and other regulatory approvals, and we expect it will close by the end of third-quarter 2023. We understand Nexans plans to use disposal proceeds to reinvest into the company.

Management is committed to maintaining a conservative balance sheet. We understand management is committed to a conservative balance sheet, in line with our requirements for a higher rating, despite the lack of a publicly stated leverage target. We therefore expect no large-scale acquisitions or excessive shareholder friendly measures over the next 24 months. However, we note that the company is proposing to significantly increase its dividend payments in 2023 to about €90 million from €54 million the year before. In coming years, we do not expect a further increase in the payout ratio, but rather that dividend payments will increase in line with operating performance.

Nexans' exposure to cyclical end markets and metals prices could weigh on its margins. The group sells its cables mainly in the building and territories sector and the industry and solutions segment. The sector in which the group operates is highly competitive and fragmented. Nexans relies on copper and aluminum for its production, which can decrease profits and increase the working capital volatility during periods of rapidly moving metals prices. We recognize, however, that the group's strongly improved working capital and contract management, with passthrough clauses and other pricing mechanisms (such as hedging), help to mitigate that risk.

Outlook

The positive outlook on Nexans reflects our view that we could raise the rating over the next 24 months if the group continues to build a track record of strong operating performance and credit metrics, namely adjusted FFO to debt exceeding 50% on a sustainable basis, while generating meaningful FOCF supported by a conservative financial policy. Such a development could occur if the group further benefits from its portfolio optimization, focus on margins, and the acceleration of the energy transition.

We could raise the rating if we believe Nexans will sustainably achieve:

- FFO to debt above 50%;
- An ability to generate FOCF of about €200 million; and
- A conservative financial policy in line with a higher rating, coupled with a longer debt maturity profile.

Downside scenario

We may revise the outlook to stable if Nexans' operational performance underperforms our expectation, due to operational setbacks or the company's inability to pass on cost increases, leading to decreasing profitability and FFO to debt of 35%-50% or an inability to generate FOCF of about €200 million. We could also revise the outlook or even lower the rating if the group undertakes substantial acquisitions or aggressive dividend payments, or if FOCF turns negative.

Company Description

France-based Nexans is the world's second-largest cable manufacturer, with about €8.4 billion (on current metal price basis) of revenue and €599 million of EBITDA in 2022. The group has around 28,000 employees and is present in 42 countries. It operates through five divisions:

- Generation and Transmission (formerly known as High voltage and projects, representing about 13% of 2022 revenue): Covers end markets such as offshore wind farms, land high voltage, and smart solutions for the oil and gas sector (direct electric heating and subsea heating cables).
- Distribution (formerly known as Territories, representing about 16%): Covers cables for the energy distribution networks managed by the electricity suppliers within the Territories;
- Usage (formerly known as Building, representing about 27%): Corresponding to all building cabling systems.
- Industry and solutions (about 23%): Provides support to original equipment manufacturers and industrial infrastructure projects, offering customized cabling and connection solutions. It covers the transportation, automation, renewables (solar and wind power), resources (oil and gas and mining), and high-tech (nuclear and medical) end markets.
- Telecommunications and data (about 5%): Serves customers deploying copper and fiber optic infrastructure within the data transmission (subsea, fiber), telecom networks, hyper scale data centers, and local area network cabling solutions end markets.
- Other activities (about 16%): Captures the wire rods, electrical wires, and winding wire production businesses.

Our Base-Case Scenario

Assumptions

- S&P Global Ratings' updated macroeconomic forecasts reflect more muted growth ahead, given the current inflationary environment and central banks around the world prioritizing fighting inflation over growth. For the eurozone, real GDP growth of 3.3% in 2022, followed by flat growth in 2023 and 1.4% in 2024. For the U.S., real GDP growth to contract from 1.8% in 2022 to -0.1% in 2023, followed by 1.4% in 2024. We expect GDP growth in Asia-Pacific to consistently improve to 4.3% in 2023 and 4.6% in 2024, from 4.1% in 2022.
- Revenue growth in 2022 of 13.4%, driven by metal price increases and overall inflation, and remaining in the 5.5%-6.5% range in 2023 and 2024, supported by a good order pipeline but also persistent inflation.
- S&P Global Ratings-adjusted EBITDA margins dropping to about 6.0% in 2022 from 7.1% in 2021, due to adverse metal price developments. In 2023 and 2024, we expect the EBITDA margin to remain between 6.0%-6.5%, continuing to receive support from the implementation of the transformation plan and decline in restructuring expenses, but also the pass through of metal price cost inflation.
- A positive change in working capital of about €150 million in 2022, supported by significant down payments. We forecast it to be nil from 2023.
- Capital expenditure (capex) of about €300 million in 2022, of which about 50% related to the strategic investments made at the Halden plant. For 2023, we expect capex of about €300 million and from 2024 we expect only maintenance capex of about €160 million.
- Annual dividends of €90 million-€100 million over the next few years.
- Acquisition spending of about €260 million in 2022, mainly driven by the Centelsa acquisition, which was completed in first-half 2022. Going forward, we expect up to €200 million in acquisitions per year.

Key metrics

Nexans S.A. -- Key Metrics

	--Fiscal year ended Dec. 31--			
(Mil. €)	**2020a**	**2021a**	**2022e**	**2023f**
Revenue	5,979	7,374	8,364	8,870.0-8,900.0
Revenue growth	(11.2)	23.3	13.4	5.5-6.5
EBITDA margin (%)	4.9	7.1	About 6.0	6.0-6.5
Capital Expenditure	225	206	About 300	About 300
Free operating cash flow (FOCF)	185	147	120-140	20-40
Debt	648	480	About 500	<700
Debt to EBITDA (x)	2.2	0.9	About 1.0	Below 1.5

Nexans S.A. -- Key Metrics (cont.)

	--Fiscal year ended Dec. 31--			
(Mil. €)	2020a	2021a	2022e	2023f
FFO to debt (%)	30.9	90.4	Above 60.0	Above 50

All figures adjusted by S&P Global Ratings. Note: 2022 year-end adjusted debt of €488 million consists of net financial debt with key adjustments being €128 million in leases, €100 million trade receivables sold, €136 million in pension, €50 million litigation (net of tax), and estimated trapped cash of €60 million. a--Actual. e--Estimate. f--Forecast.

Liquidity

The short-term issuer credit rating is 'B'. We view Nexans' liquidity as strong, based on our expectation that sources of liquidity will exceed uses by more than 1.5x over the next 12 months and remain above 1.0x over the subsequent 12-month period. We expect liquidity sources will exceed liquidity uses even if forecast EBITDA declines by 30%.

We think Nexans has well-established relations with banks and demonstrates prudent liquidity management, with sizable cash balances, an undrawn long-term revolving credit facility (RCF), and a focus on working capital reduction.

We estimate principal liquidity sources as of Dec. 31, 2022, as including:

- About €1,134 million of cash and cash equivalents;
- A €800 million fully undrawn RCF, maturity extended to 2027; and
- Forecast annual FFO of €300 million-€350 million in 2023 and €350 million-€400 million in 2024.

For the same period, we estimate principal liquidity uses as including:

- Upcoming debt maturities of about €600 million in 2023 and €360 million in 2024;
- About €50 million of seasonal variation in working capital per year for 2023 and 2024;
- Annual capex of about €300 million in 2023 and about €160 million in 2024;
- About €90 million-€100 million of annual dividends in 2023 and 2024.

Note: We understand that Nexans recently has secured a back-up facility line of €325 million that will be reduced to €200 million in April 2024 and mature in August 2025. This facility line ensures the group's liquidity until Nexans refinances its bonds maturing in 2023 and 2024.

Covenants

The group amended its €600 million syndicated credit facility. It is subject to the following two covenants:

- The consolidated net debt-to-equity ratio (including no-controlling interests) must not exceed 1.20x.
- Consolidated debt is capped at 3.2x consolidated EBITDA.

In our opinion, the group has ample headroom given its high cash balances.

Issue Ratings - Recovery Analysis

Key analytical factors

- The senior unsecured notes (comprising the €325 million notes due in August 2023, and €200 million notes due in April 2024) are rated 'BB+', with a recovery rating of '3' (capped due to unsecured nature of obligations). The ratings are based on our expectation of 50%-70% recovery (rounded estimate of 65%) in the case of a payment default.
- The recovery rating on the facilities is supported by limited priority ranking debt, while it is constrained by the notable quantum of pari passu unsecured debt.
- In our hypothetical default scenario, we assume a severe global recession in key markets, tightening credit markets, and significant contraction in demand due to an overall economic slowdown.
- We value the group as a going concern, given its strong brand and strong competitive position.

Simulated default assumptions

- Year of default: 2028
- Jurisdiction: France

Simplified waterfall

- Emergence EBITDA: €284.4million.
- Minimum capex at 2%, based on the group's average minimum capex requirement trend: €164 million.
- Standard cyclicality adjustment of +5%.
- Implied enterprise value multiple: 5.5x.
- Gross enterprise value at default: €1.48 billion
- Net enterprise value after administrative costs (5%): €1.41 billion
- Estimated senior unsecured debt: €1.92 billion
- Recovery expectations: 50%-70%; (rounded estimate: 65%)

Note: All debt amounts include six months of prepetition interest accrued and assumed 85% drawn on the RCFs.

Ratings Score Snapshot

Issuer Credit Rating	BB+/Positive/B
Business risk:	Fair
Country risk	Low
Industry risk	Intermediate
Competitive position	Fair
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bb+

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Nexans S.A.		
Issuer Credit Rating	BB+/Positive/B	BB+/Stable/B
Ratings Affirmed		
Nexans S.A.		
Senior Unsecured	**BB+**	
Recovery Rating	3(65%)	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.